

Message Text

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INFO OCT-01 ISO-00 /001 R

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FM SECSTATE WASHDC

TO USDEL SECRETARY IMMEDIATE

C O N F I D E N T I A L STATE 118307 TOSEC 010106

NODIS

E.O. 11652: GDS

TAGS:ENRG

SUBJECT: DRAFT IEA SPEECH

FOR THE SECRETARY FROM ENDERS AND LORD

FOLLOWING IS REVISED TEXT FOR YOUR IEA INTERVENTION.

INTERNATIONAL ENERGY AGENCY SECRETARY'S INTERVENTION

FIFTEEN MONTHS AGO THE WASHINGTON ENERGY CONFERENCE

WAS CONVENED IN RESPONSE TO THE GLOBAL ENERGY CRISIS BROUGHT

BY OIL EMBARGO AND AN ENORMOUS INCREASE IN OIL PRICES. WE

RECOGNIZED THEN THAT THE ENERGY CRISIS WAS THE MOST SEVERE

CHALLENGE TO INDUSTRIAL CIVILIZATION SINCE THE SECOND WORLD

WAR.

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IN THE MONTHS SINCE WE HAVE PROVIDED OURSELVES WITH THE

MEANS TO OVERCOME THAT CHALLENGE. DESPITE GREAT DISPARITIES

IN OUR COUNTRIES' ENERGY ENDOWMENT AND POTENTIAL, WE

HAVE FOUND A WAY TO SERVE THE INTERESTS WHICH WE ALL SHARE.

WHAT WE HAVE ACHIEVED SINCE THE WASHINGTON ENERGY

CONFERENCE REPRESENTS ONE OF THE MAJOR SUCCESS STORIES OF

COOPERATION BETWEEN THE INDUSTRIALIZED DEMOCRACIES IN THE

PAST DECADE.

-- TO PROTECT AGAINST EMERGENCIES WE ESTABLISHED

SHARING PROGRAMS TO COPE WITH NEW EMBARGOES, AND CREATED

NEW MECHANISMS TO PROTECT OURSELVES FROM FINANCIAL DISRUP-

TION. WE CAN BE SATISFIED WITH OUR ACHIEVEMENTS IN THESE

AREAS.

-- TO TRANSFORM THE MARKET CONDITIONS FOR OPEC OIL

BY LESSENING OUR VULNERABILITY TO PRICE AND SUPPLY MANIPU-

LATION, WE SET CONSERVATION GOALS AND REACHED PRELIMINARY

AGREEMENT ON THE DEVELOPMENT OF ALTERNATIVE SOURCES.

-- AND FROM THE BEGINNING WE TOOK AS OUR ULTIMATE

PURPOSE A NEW RELATIONSHIP WITH THE OIL PRODUCERS WHICH

WOULD TAKE INTO ACCOUNT THE NEEDS AND ASPIRATIONS OF BOTH

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CONSUMERS AND PRODUCERS.

THE MEANS TO OVERCOME THE CHALLENGE ARE AT HAND,

BUT WE HAVE NOT YET FULLY GRASPED THEM. AS OUR CONSERVA-

TION CAME TO THE POINT OF DECISION, ,

WE HAD EACH TO TURN FROM THE ENERGY PROBLEM TO

THE SHARP CHALLENGE OF THE MOST SERIOUS RECESSION IN TWO

GENERATIONS. THE RECESSION COMBINED WITH A WARM WINTER

AND STOCK DRAWDOWNS, IS ENABLING US TO MEET OUR CONSERVA-

TION GOALS FOR THIS YEAR, AND MORE. BUT IT HAS BLUNTED
AND DELAYED, IN AMERICA AND ELSEWHERE, THE DRIVE TO ADOPT
MEDIUM AND LONG-TERM CONSERVATION MEASURES AND ALTERNATIVE
SUPPLY POLICIES NEEDED TO LESSEN OUR VULNERABILITY.
FOR THE MIDDLE-TERM, WE MUST FACE THE POSSIBILITY THAT
OPEC'S MARKET POWER MAY GROW. DURING THE CURRENT DECLINE
IN DEMAND FOR OIL, THE OIL PRODUCERS HAVE APPORTIONED THE
PRODUCTION CUTS NECESSARY TO KEEP SUPPLY IN LINE WITH
DEMAND, LEAVING THE BASIC PRICE STRUCTURE INTACT. AS
GROWTH RESUMES IN THE INDUSTRIAL ECONOMIES, AND WITH A NOR-
MAL OR COLD WINTER, PRODUCERS WILL ENJOY A SOMEWHAT STRON-
GER MARKET THESE TWO YEARS. INDEED, WE ALREADY HAVE BEEN
WARNED OF NEW PRICE INCREASES. THESE WOULD BE ECONOMICALLY
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UNJUSTIFIED, FOR MUCH SURPLUS PRODUCTION CAPACITY IS
AVAILABLE, INFLATION IS SLOWING, AND PRICES ALREADY ARE AT
HISTORIC HIGHS. YET, WE CANNOT DENY THAT THE PRODUCERS
MAY HAVE THE MARKET POWER TO ENFORCE SUCH INCREASES OVER
THE SHORT AND EVEN MID-TERM, IF WE DO NOT ACT NOW.
FOR THE LONGER-TERM, WE MUST REALIZE THAT THE COST TO
OUR ECONOMIES WILL GROW IF OPEC RETAINS THE POWER TO SET
PRICES. NOW WE ARE PAYING OUT ONLY A FRACTION OF OPEC'S
INCREASED INCOME IN GOODS AND SERVICES: THE REST BENEFITS
US AS INVESTMENT IN OUR CAPITAL MARKETS. BUT THE REAL
COST WILL GROW RAPIDLY AS OPEC'S IMPORTS MOUNT. IF
OPEC'S PRICE STRUCTURE HOLDS, BY THE END OF THE DECADE

OIL WILL COST US AT LEAST ONE PERCENT OF OUR NATIONAL
OUTPUT MORE PER YEAR THAN IF THE CARTEL DID NOT EXIST.
AND HIGH PRICES WILL SLOW OUR GROWTH IN THIS PERIOD.
THESE ARE ENORMOUS COSTS TO ACCEPT AT A TIME WHEN WE ARE
UNCERTAIN OF RESTORING GROWTH AND CANNOT MEET OUR
SECURITY AND SOCIAL NEEDS FULLY. THE FACT THAT THESE
COSTS BY THEN WILL BE UNTRACEABLE TO OIL--INDEED WILL BE
DISGUISED AS EXPORT GAINS--MAKES THEM NONE THE LESS REAL.

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AND THROUGHOUT THIS PERIOD, IF THE CARTEL HOLDS, OUR
ECONOMIES WILL REMAIN VULNERABLE TO MANIPULATIONS; AND
THE POLITICAL COSTS OF THAT POTENTIAL SUBJUGATION WILL
MOUNT.

WE MUST USE THIS MEETING TO RECOMMIT OURSELVES TO THE
CONSERVATION EFFORT THAT WILL PROTECT US WHEN THE ECONOMIC
UPSWING BEGINS. AND WE MUST TAKE THIS OPPORTUNITY TO
STRENGTHEN OUR ALTERNATIVE SOURCE POLICY, PARTICULARLY
IN THE AREA OF NUCLEAR POWER AND RESEARCH AND DEVELOPMENT,
SO AS TO CREATE CONDITIONS WHICH WILL PERMIT THE ULTIMATE
RESTORATION OF EQUILIBRIUM PRICES.

AND WE MUST USE THIS MEETING TO REORIENT OUR APPROACH
TO THE PRODUCERS.

CONSERVATION

THE MOST CRITICAL YEARS OF VULNERABILITY ARE 1976 AND
1977. THE RECESSION HAS ENABLED US TO SURPASS OUR 1975
CONSERVATION GOALS, AND THE PRESSURE IS NOW ON OPEC.

THIS IS THE RIGHT RESULT--FOR THE WRONG REASON. BUT

BETWEEN NOW AND 1978 ONLY CONSERVATION CAN PREVENT OUR

VULNERABILITY TO A NEW OIL INTERRUPTION FROM INCREASING.

AFTER THAT, WE CAN EXPECT PETROLEUM FROM THE NORTH SEA,
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ALASKA AND SUCH NEW PRODUCERS AS MEXICO AND THE PEOPLES'

REPUBLIC OF CHINA TO LESSEN THE PRESENT PATTERN OF VULNERA-

BILITY.

THE UNITED STATES REMAINS COMMITTED TO THE GOAL

PRESIDENT FORD SET OF 2 MILLION BARRELS A DAY SAVINGS BY

THE END OF 1977. THE ACTIONS THE PRESIDENT HAS JUST

ANNOUNCED -- PHASED DECONTROL OF OIL AND AN ADDITIONAL

IMPORT FEE -- WHEN ADDED TO MEASURES ALREADY TAKEN AND IF

VALIDATED BY THE CONGRESS--WILL YIELD 2 MILLION BARRELS A

DAY SAVINGS IN IMPORTED OIL BY THE END OF 1977. BY 1985,

THESE SAME MEASURES WOULD YIELD OVER 4 MILLION BARRELS A

DAY. WE BELIEVE THE IEA SHOULD CONTINUE TO IMPLEMENT

BALANCED PROGRAMS OF CONSERVATION IN WHICH THE UNITED

STATES--BECAUSE IT HAS HALF THE OIL CONSUMPTION--WILL

COMMIT ITSELF TO HALF THE SAVINGS.

ALTERNATIVE SOURCES

MOST OF OUR COUNTRIES WILL IMPORT SOME, EVEN MUCH OF

THEIR ENERGY, INDEFINITELY. BUT THE TERMS OF THESE IMPORTS,

AND OUR VULNERABILITY TO SUPPLY AND PRICE MANIPULATION,

WILL DEPEND CRITICALLY ON WHETHER OPEC RETAINS ITS ABILITY

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TO SET PRICES. IF IT DOES, IT WILL BY THAT VERY FACT HAVE
THE POWER TO ENFORCE A NEW EMBARGO. IF IT DOES NOT, A
NEW EMBARGO WOULD BE LESS EFFECTIVE, OR INEFFECTIVE.
IEA COUNTRIES THEREFORE MUST AIM TO PRODUCE ENOUGH
ENERGY WITHIN THEIR OWN ECONOMIES TO REDUCE OPEC'S MARKET
TO THE POINT WHERE IT CAN NO LONGER EFFECTIVELY DISTRIBUTE
PRODUCTION CUTS.

WHERE THAT POINT IS WILL DEPEND ON THE RAPIDITY WITH
WHICH INDIVIDUAL PRODUCERS INCREASE INPUTS AND ON THE
WILLINGNESS OF COUNTRIES WITH LOW IMPORT NEEDS TO TAKE
MORE THAN THEIR SHARE OF PRODUCTION CUTS. BUT CLEARLY
IT SHOULD BE SUBSTANTIALLY BELOW THE PRESENT OPEC MARKET
OF 25 MILLION BARRELS A DAY, A LEVEL TO WHICH THE PRODUCERS
HAVE ADJUSTED EFFECTIVELY.

WHETHER THAT TARGET CAN BE REACHED IN THE NEXT TEN
YEARS ABOVE ALL WILL DEPEND ON THE DEVELOPMENT OF OIL, GAS
AND NUCLEAR POWER. ULTIMATELY, RESEARCH AND DEVELOPMENT
OF NEW FUELS WILL BECOME THE DOMINANT FACTOR.

MINIMUM PROTECTED PRICE

THE PURPOSE OF THE MINIMUM PROTECTED PRICE MECHANISM
IS TO PROVIDE SOME ASSURANCE THAT THE CONVENTIONAL ENERGY
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INVESTMENTS REQUIRED IN THE NEXT TEN YEARS TO REDUCE OPEC'S
MARKET WILL BE MADE.

WE CAN NOW ESTIMATE COST RANGES FOR THE MAJOR INVEST-
MENTS REQUIRED. WE KNOW THAT INVESTMENTS IN NORTH SEA OIL

AND GAS, NEW ALASKAN NORTH SLOPE OIL, THE U.S. OUTER
CONTINENTAL SHELF, AND NUCLEAR POWER EVERYWHERE WILL BE
UNDERTAKEN AT PRESENT OR SOMEWHAT LOWER PRICES. BUT THEY
MAY BE DELAYED,OR CANCELLED,IF OIL PRICES WITHIN OUR
ECONOMIES FALL OR SEEM LIKELY TO FALL TO SUBSTANTIALLY
LOWER LEVELS. ENTREPRENEURS WILL BE WILLING TO TAKE
SOME OF THE PRICE RISK, AND GOVERNMENTS DO NOT HAVE TO
COVER IT ALL. BUT THE PROTECTION AFFORDED SHOULD BE
SUFFICIENT TO ENCOURAGE THE MAJOR CONVENTIONAL ENERGY
INVESTMENTS NEEDED TO REDRESS THE MARKET BALANCE.

NUCLEAR POWER

NUCLEAR POWER REPRESENTS OUR MOST IMPORTANT AND
PROMISING NEAR TERM SUBSTITUTE FOR THE INEVITABLY
DECLINING SUPPLY OF FOSSIL FUEL.

COLLECTIVELY, IEA COUNTRIES RELY HEAVILY ON NUCLEAR
POWER TO ACHIEVE GREATER SELF-SUFFICIENCY. BY 1985 THE
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EUROPEAN COMMUNITY HOPES THAT NUCLEAR STATIONS WILL GENE-
RATE ABOUT ONE-QUARTER OF ITS ELECTRICITY; JAPAN A THIRD;
THE U.S. PERHAPS A THIRD.

BUT THERE ARE MAJOR CHALLENGES ASSOCIATED WITH THE
ORDERLY, SAFE AND PRUDENT INTRODUCTION OF THIS IMPORTANT
NEW TECHNOLOGY, INCLUDING:

--LACK OF CONFIDENCE THAT SUFFICIENT URANIUM AND

THE FACILITIES FOR ENRICHING IT WILL BE AVAILABLE WHEN
NEEDED;

-- A SHORTAGE OF CAPITAL TO BUILD REACTORS;

-- UNCERTAINTY OVER WHETHER, WHEN, AND UNDER WHAT

CONDITIONS REACTOR FUELS WILL BE REPROCESSED AND RECYCLED

INTO THE NUCLEAR ENERGY SYSTEM; AND

-- RESISTANCE BY THE PUBLIC AND LEGISLATORS TO THE

WIDESPREAD CONSTRUCTION OF NUCLEAR FACILITIES OF ALL TYPES.

WITHIN THE IEA IT IS ESSENTIAL THAT WE WORK TO OVER-

COME THESE PROBLEMS. WE SHOULD:

-- ENSURE THAT NEEDED URANIUM ENRICHMENT FACILITIES

ARE CONSTRUCTED ON SCHEDULE. IN THIS REGARD, THE PRESI-

DENT ASKS ME TO ANNOUNCE THAT TO SERVICE EXISTING AND

EXPECTED ORDERS STARTING IN 1982, THE UNITED STATES

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GOVERNMENT WILL CONSTRUCT A 5 MILLION SWU ADDITION TO

EXISTING GASEOUS DIFFUSION PLANTS. AS A PARALLEL PROGRAM

THE UNITED STATES WILL LOOK TO THE CONSTRUCTION OF COMMER-

CIAL CENTRIFUGE PLANTS BY PRIVATE ENTERPRISE. THREE

SUCH PLANTS ARE IN THE PLANNING STAGE AND EXPECTED TO

BE OPERATIONAL BY THE EARLY 1980'S. IT WILL BE THE POLICY

OF THE UNITED STATES GOVERNMENT TO ENCOURAGE FOREIGN PARTI-

CIPATION IN BOTH THESE ENTERPRISES.

-- DEVELOP AGREED ESTIMATES OF THE FUTURE DEMAND AND

SUPPLY OF FUEL, INCLUDING ASSESSMENTS OF THE AVAILABILITY

OF URANIUM RESOURCES;

-- PROJECT THE CAPITAL REQUIREMENTS OF THE NUCLEAR

SECTOR FOR THE NEXT TEN YEARS AND GIVE URGENT CONSIDERA-

TION TO WAYS THAT OUR GOVERNMENTS, ACTING BOTH INDIVIDUALLY

AND COOPERATIVELY, CAN ASSIST IN MEETING THESE REQUIREMENTS.

-- EVALUATE THE ECONOMIC NECESSITY, PLANT REQUIRE-

MENTS, AND SAFETY IMPLICATIONS OF PLUTONIUM REPROCESSING

AND STORAGE. WE NEED TO ASSURE THE TIMELY AND ORDERLY

EVOLUTION IN THIS IMPORTANT AREA.

-- DEVELOP BALANCED EDUCATIONAL PROGRAMS TO BRING

PERCEPTIONS OF THE RISKS AND BENEFITS OF NUCLEAR ENERGY
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IN LINE WITH REALITY. THESE MUST BE REINFORCED BY

CONTINUED INTENSIVE EFFORTS ON OUR PART TO IMPROVE THE

SAFETY AND SECURITY OF NUCLEAR MATERIALS AND EQUIPMENT.

IN PROPOSING THIS EXPANDED PROGRAM OF WORK IN THE

NUCLEAR FIELD, WE ARE FULLY AWARE THAT SEVERAL OF THE

TECHNICAL ISSUES INVOLVED ARE ALREADY BEING DEALT WITH

BY OECD'S NUCLEAR ENERGY AGENCY. THAT WORK SHOULD

CONTINUE; THE IEA SHOULD NOT AND NEED NOT DUPLICATE IT.

FINANCING

ACCESS TO FUNDING IS LIKELY TO BE THE CRITICAL

CONSTRAINT IN THE YEARS AHEAD. EACH COUNTRY MUST DECIDE

WHETHER THE ACHIEVEMENT OF ADEQUATE ENERGY SUPPLIES IN

OUR OWN ECONOMIES JUSTIFIES PREFERENTIAL ACCESS TO

CAPITAL MARKETS. IN VIEW OF PROSPECTIVE CAPITAL SHORTAGES

THROUGH THE INDUSTRIAL ECONOMIES, LARGER QUESTIONS OF

ECONOMIC AND SOCIAL POLICY ARE INVOLVED.

MEANWHILE WE SHOULD PROCEED TO PUT IN PLACE THE AGREED

IEA FRAMEWORK FOR PROJECT-BY-PROJECT COOPERATION. AS

NEEDED AND DESIRED, WE CAN USE THIS FRAMEWORK TO PROVIDE
JOINT GUARANTEES OR OTHER ASSISTANCE TO THE FINANCING OF
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LARGE PROJECTS.

ENERGY RESEARCH AND DEVELOPMENT

LOOKING BEYOND THE EARLY YEARS OF THE NEXT DECADE,

IT IS CLEAR THAT NEW, NON-CONVENTIONAL ENERGY SOURCES

MUST BE MADE AVAILABLE TO MEET A GROWING PROPORTION OF

OUR ENERGY DEMAND. IT IS IN DEVELOPING THESE NEW SOURCES

THAT IEA'S COOPERATIVE PROGRAM MAY MAKE ITS MOST IMPORTANT

AND LASTING CONTRIBUTION.

OVER THE PAST YEAR-AND-A-HALF IEA MEMBER COUNTRIES

HAVE UNDERTAKEN EXPANDED NATIONAL PROGRAMS IN ENERGY

RESEARCH AND DEVELOPMENT. IN THE UNITED STATES, FOR

EXAMPLE, THE ENERGY RESEARCH AND DEVELOPMENT AGENCY WILL

SPEND MORE THAN TWO BILLION DOLLARS IN THE FISCAL YEAR

BEGINNING NEXT MONTH. ERDA'S PROGRAM INCLUDES EMPHASIS

ON INCREASING THE EFFICIENCY WITH WHICH ENERGY IS GENERATED

AND USED; ON INCREASED ENERGY PRODUCTION THROUGH THE RECOVERY

OF MORE OIL AND MORE USE OF COAL; AND ON THE CONVERSION OF

COAL TO SYNTHETIC OIL, GASOLINE, AND NATURAL GAS.

THESE ELEMENTS OF OUR DOMESTIC RESEARCH AND DEVELOPMENT

EFFORT CAN HAVE A MAJOR EFFECT ON ENERGY USE AND PRODUCTION

IN THIS CENTURY. BUT FOR THE PERIOD BEYOND THE YEAR 2000,

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THERE ARE JUST THREE KNOWN POTENTIAL SOURCES OF ENERGY

THAT ARE, FOR ALL PRACTICAL PURPOSES, INFINITE. THEY ARE
THE BREEDER REACTOR, NUCLEAR FUSION, AND SOLAR ENERGY.
ACCORDINGLY, THESE HAVE A HIGH PRIORITY IN THE U.S. PROGRAM.
SINCE EACH CONVERTS TO ELECTRICITY, WE WILL DEVOTE SIGNI-
FICANT RESOURCES TO RESEARCHING METHODS TO ACHIEVE MORE
EFFICIENT STORAGE OF ELECTRICITY, AND TO LOOKING AT THE
PROBLEMS AND OPPORTUNITIES OF ADAPTING A NATIONAL
TRANSPORTATION SYSTEM TO ELECTRICITY.
IN THE IEA, WE HAVE DECIDED TO LINK OUR NATIONAL
R&D PROGRAMS THROUGH COORDINATED PLANNING, INTENSIFIED
INFORMATION EXCHANGE, AND--MOST SIGNIFICANTLY--BY
JOINT PROJECTS TO POOL OUR CAPITAL, INDUSTRIAL SKILLS,
AND TECHNOLOGY. THE EARLY RESULTS ARE PROMISING. IN
ADDITION TO JOINT PROJECTS RELATED TO ENERGY CONSERVATION
AND ASPECTS OF NUCLEAR POWER, WE HAVE INTENSIFIED OUR
COOPERATION IN THE AREA OF HYDROGEN PRODUCTION FROM WATER
AND WE ARE MOVING RAPIDLY TOWARD AGREEMENT ON AN IMPORTANT
JOINT PROGRAM IN COAL TECHNOLOGY.

WE BEGAN THIS COOPERATION ON RESEARCH AND DEVELOPMENT

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WITH AN ANALYSIS OF EXISTING AND POTENTIAL ENERGY TECHNO-
LOGIES. NOW WE MUST ESTIMATE WHEN THESE TECHNOLOGIES CAN
BE REALIZED, THEIR PRODUCTION POTENTIAL AND THE IMPLICA-
TIONS FOR OUR SOCIETIES OF THE KIND OF ENERGY THEY WILL
PRODUCE.

THEREFORE, I BELIEVE THAT WE SHOULD AGREE TODAY THAT

OUR LEADING RESEARCH AND DEVELOPMENT OFFICIALS SHOULD MEET
IN EARLY SUMMER AS A SPECIAL SESSION OF THE GOVERNING BOARD.
THEIR GOAL WOULD BE TO COMPLETE THE DESIGN OF A JOINT ENERGY
RESEARCH & DEVELOPMENT PROGRAM THAT WILL RECEIVE HIGH
PRIORITY IN ALL OUR NATIONAL POLICY AND BUDGET DECISIONS.
NO COUNTRY WILL GIVE AWAY VALUABLE TECHNICAL KNOW-
HOW WITHOUT COMPENSATING ACCESS TO KNOW-HOW IT DOES NOT
POSSESS. YET IN COUNTRIES AS DIVERSE AND AS ENDOWED
TECHNOLOGICALLY AS OURS, THE SCOPE FOR BUSINESS-LIKE
EXCHANGE IS ENORMOUS.

THE AGREED DEADLINE FOR ELABORATION OF THE OVERALL
ALTERNATIVE SOURCES SYSTEM IS JULY 1. WE MUST MEET THAT
DEADLINE. PRESIDENT FORD HAS ASKED ME TO UNDERLINE THE
URGENCY WITH WHICH THE UNITED STATES APPROACHES THIS
TASK. WITHOUT CLEAR INCENTIVES TO MAJOR NEW ENERGY
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INVESTMENTS, IEA COUNTRIES CAN NEVER HOPE TO END THEIR
VULNERABILITY.
RELATIONS WITH PRODUCERS
SINCE ITS START, IEA HAS BEEN COMMITTED TO SEEK A
NEW RELATIONSHIP WITH THE PRODUCERS WHICH WOULD TAKE INTO
ACCOUNT THE NEEDS AND ASPIRATIONS OF BOTH PRODUCERS AND
CONSUMERS. HOWEVER, IT IS NOW CLEAR THAT WE CANNOT CARRY
IT FAR WITHOUT ADDRESSING BASIC PROBLEMS OF THE RELATION-
SHIP BETWEEN DEVELOPING AND DEVELOPED COUNTRIES. WE WILL
DISCUSS THESE ISSUES TOMORROW, IN THE OECD.

THE SOLIDARITY WE HAVE ACHIEVED AS MEMBERS OF THE
IEA IS A NECESSARY CONDITION FOR BUILDING THE BROADER
STRUCTURE OF RELATIONSHIPS AMONG CONSUMERS AND PRODUCERS.
THIS STRUCTURE IS CRUCIAL, FOR NO SOLUTION CAN LAST THAT
DOES NOT DERIVE FROM A NEW AND STABLE WORLD ECONOMIC BALANCE.
BY NOW WE KNOW THAT THE WORLD ECONOMY IS A SENSITIVE SET
OF RELATIONSHIPS: INFLATION ERODES THE CAPACITY TO IMPORT;
STAGNATION REDUCES EXPORT PROSPECTS; EXCESSIVE PRICES LOWER
CONSUMPTION AND SPUR ALTERNATIVE PRODUCTION. THUS EACH
ACTION SETS OFF A CHAIN OF COUNTERACTIONS. ULTIMATELY WE
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MUST ACHIEVE A NEW EQUILIBRIUM RELATIONSHIP.
OUR EFFORTS TO MOVE TOWARD THIS GOAL AT THE PARIS
MEETING LAST MONTH REVEALED A WIDE DIFFERENCE OF VIEW
BETWEEN PRODUCERS AND CONSUMERS ON THE SCOPE AND STRUCTURE
OF THE DIALOGUE. THE REPRESENTATIVES OF THE OPEC COUNTRIES
AND THE DEVELOPING COUNTRIES ENVISIONED A CONFERENCE TO
DEAL WITH THE BROAD RANGE OF ECONOMIC ISSUES CONFRONTING
THE INDUSTRIALIZED NATIONS AND THE REST OF THE WORLD. WE
WANTED A CONFERENCE THAT FOCUSED ON ENERGY. SOME RECONCI-
LIATION OF THESE VIEWS MUST BE ACHIEVED.
TO BEGIN THIS PROCESS WE MUST DEMONSTRATE SERIOUS
DETERMINATION TO ADDRESS NON-ENERGY AS WELL AS ENERGY
ISSUES. I RECENTLY SET FORTH OUR IDEAS ON WAYS TO BEGIN
DISCUSSION OF RAW MATERIALS AND COMMODITIES PROBLEMS--
WITH MULTILATERAL TRADE NEGOTIATIONS, IN INDIVIDUAL

COMMODITY GROUPS, IN THE WORLD BANK--IN THE EXPECTATION
THAT THESE IDEAS WOULD BE A BASIS FOR PROGRESS TOWARD
MEETING MANY OF THE CONCERNS RAISED AT THE PARIS MEETING.

I WILL HAVE FURTHER IDEAS TO PUT FORWARD TOMORROW.

WE BELIEVE A SUCCESSFUL DIALOGUE ON RAW MATERIALS

AND COMMODITY ISSUES SHOULD MAKE MAXIMUM USE OF
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EXISTING MULTILATERAL FORUMS. AN EXPEDITIOUS WAY TO BEGIN
SERIOUS DISCUSSIONS WOULD BE FOR THE COUNTRIES INVOLVED
IN THE PREPARATION EFFORT TO REQUEST CONSIDERATION OF THESE
AND OTHER PROPOSALS BY THE APPROPRIATE INTERNATIONAL BODIES
THROUGH JOINT INITIATIVES. ANOTHER POSSIBILITY IS FOR THE
PREPARATORY MEETING TO AGREE ON THE CREATION OF THREE
MINISTERIAL COMMISSIONS; ONE ON ENERGY, ONE ON RAW
MATERIALS, ONE ON THE PROBLEM OF THE POOREST. THE
COMMISSIONS COULD MEET CONSECUTIVELY OR SIMULTANEOUSLY
BUT WITHOUT AN ARBITRARY DEADLINE. RATHER THAN SUPPLANT
THE ALREADY SUBSTANTIAL WORK DONE ON RAW MATERIALS AND
THE PROBLEM OF THE POOREST, THESE COMMISSIONS WOULD
MONITOR AND SUPPLEMENT EXISTING WORK.
MEMBERSHIP IN THESE COMMISSIONS WOULD, OF COURSE,
HAVE TO BE LIMITED IF THEY ARE TO BE EFFECTIVE. I WOULD
SUGGEST THAT OBJECTIVE CRITERIA BE ESTABLISHED FOR EACH.
IN ENERGY, FOR EXAMPLE, COUNTRIES EXPORTING OR IMPORTING
MORE THAN A CERTAIN VOLUME OF ENERGY IN THE WORLD MARKET
COULD BE INCLUDED. IN RAW MATERIALS, COUNTRIES WHOSE
EXPORTS OF OTHER RAW MATERIALS EXCEEDED A CERTAIN PERCENT-

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TAGE OF THEIR GNP COULD BE INCLUDED, ALONG WITH THE MAIN IMPORTERS. FOR THE POOREST, COUNTRIES REPRESENTATIVE OF THOSE WITH THE LOWEST PER CAPITA INCOME COULD BE INCLUDED, ALONG WITH TRADITIONAL AND NEW DONORS. BY DEMONSTRATING OUR WILLINGNESS TO DEAL WITH NON-ENERGY ISSUES, I BELIEVE WE CAN REMOVE A ROADBLOCK TO A PRODUCER-CONSUMER CONFERENCE CONCENTRATED ON ENERGY MATTERS. THE UNITED STATES IS PREPARED TO ATTEND A SECOND PREPARATORY MEETING TO PLAN SUCH A CONFERENCE. WE WILL CONSULT BILATERALLY WITH THE GOVERNMENT OF FRANCE AND WITH PRODUCERS REGARDING SUCH A MEETING. WE WILL, OF COURSE, KEEP THE IEA FULLY INFORMED OF THESE CONSULTATIONS. IN THE IEA WE MUST DISCUSS AND COORDINATE ANY FORMAL STEPS TOWARD THE CONVENING OF A SECOND PREPARATORY MEING. FROM ITS INCEPTION, THE IEA HAS BEEN COMMITTED TO DIALOGUE BETWEEN OIL CONSUMING AND PRODUCING COUNTRIES. IF THE OTHER PARTICIPANTS IN THAT MEETING SHARE OUR COMMITMENT TO DIALOGUE, I BELIEVE THAT IT WILL SOON BE POSSIBLE TO PLAN FOR A FULL PRODUCER-CONSUMER CONFERENC

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CAPABLE OF ACHIEVING REAL AND MUTUALLY BENEFICIAL PROGRESS.
MAY 20,1975 INGERSOLL

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TEXT, INTERNATIONAL ORGANIZATIONS, SPEECHES, CAT-A, TOSEC 10106
Control Number: n/a
Copy: SINGLE
Draft Date: 21 MAY 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE118307
Document Source: ADS
Document Unique ID: 00
Drafter: EB-TOENDERS/LS
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Film Number: n/a
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t197505103/baaaakgo.tel
Line Count: 812
Locator: TEXT ON-LINE
Office: ORIGIN NODS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: NODIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 15
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: NODIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 19 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <19 MAY 2003 by CunninFX>; APPROVED <03 OCT 2003 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: LOCK1
Status: NATIVE
Subject: n/a
TAGS: ENRG, IEA, (KISSINGER, HENRY A)
To: SECRETARY
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006